

Many Significant Regulatory Changes Take Effect in 1997

The ultimate, long-term effects of recent regulatory changes are hard to predict, but they could prove to be important for many rural areas. Rural development could be significantly affected by regulatory changes linked to telecommunications, environmental protection, natural resources and land management, health insurance, social security, immigration reform, banking, and Native American programs.

Last year was a “watershed” year for regulatory change, and most of these changes take effect in 1997. In addition to revisions that reinvent government, reform the welfare system, raise the minimum wage, and revise drinking water regulations, all discussed elsewhere in this report, many other regulatory changes deserve attention. Here, we discuss those affecting telecommunications, the environment, public lands, health, social security, immigration, banking, and Native Americans.

Telecommunications Act's Universal Service Rules Are Crucial to Rural Areas

One of the provisions of the Telecommunications Act of 1996 mandated that the Federal Communications Commission (FCC) write regulations aimed at achieving universal service. By law, universal service requires that quality telecommunications service (including access to advanced telecommunication and information services) should be available everywhere in the country at equitable rates, and that priority be given to primary and secondary schools, health care providers, and libraries. Because telecommunication links to providers of education, health, and business services (to name just a few) are increasingly important, rural interest in the FCC's regulations centers on such questions as which services will be included in universal service, who will pay for these services, which rural places and institutions will receive support, and how much support will they receive?

The FCC issued proposed universal service regulations in May 1997 following the recommendations of the Federal-State Joint Board. In November 1996, the Joint Board recommended that a full range of telephone services be provided, that special programs aiding low-income consumers be supported, and that States set rates based on affordability criteria. The Board also made recommendations concerning how to administer the universal service support mechanism, which local phone services, schools, libraries, and health care providers would be eligible for assistance, and how much financial support they would receive.

The school, library, and health care recommendations go to the core of rural concerns. The Board recommended that a large number of public institutions be eligible for assistance. For example, the Board estimates that 9,600 health care providers will be eligible to receive telecommunication services supported by the universal service mechanism. These include teaching hospitals, medical schools, health centers, and health departments. The Board recommended that eligible schools and libraries be able to buy at discount any telecommunication service, including Internet. The proposed discounts range from 20 to 90 percent of the provider's rate, based on need and “high cost” factors. Funding for universal support for schools and libraries is capped at \$2.25 billion per year. Unspent funds, though, can be carried forward to subsequent years. *[Peter Stenberg, (202)219-0543, stenberg@econ.ag.gov]*

Pesticides Rules Revised and More Stringent Air Quality Rules Proposed

The new legislation establishing rules for pesticides in raw and processed foods was a compromise between consumers and industry, allowing pesticide use to continue while limiting the cancerous residue allowed. This legislation replaced the Delaney clause requiring “zero tolerance” of cancer-causing additives with a provision requiring “reasonable certainty” of no harm (generally interpreted as having no more than one-in-a-million lifetime chance of causing cancer). This legislation also limits the States' ability to impose stricter restrictions, has special rules protecting children, provides better disclosure of information to consumers, and expedites government approval of new pesticides. Farming areas, particularly places that grow fruits and vegetables, should benefit from this change because recent court decisions based on the Delaney clause had instructed

EPA to prohibit the use of some common pesticides. The law now allows EPA to focus its attention on more dangerous threats to public health.

EPA's proposal for more restrictive air quality standards covering airborne particles and ground-level ozone may have more far-reaching consequences for rural areas. This could impose significant new costs on polluting industries, such as oil refineries and coal power plants and could require reductions in auto and truck emissions. If industry cannot accommodate these changes, some local areas may have to restrict pollution-generating growth and development to avoid penalties, such as reduced Federal infrastructure aid. This could benefit rural development for several reasons. First, it could redirect development from large urban and suburban areas that suffer from high levels of air pollution to less polluted rural areas. Second, reduced pollution from coal power plants could improve conditions in rural recreation areas currently suffering from acid rain. However, development could be negatively affected in some polluted rural areas, such as industrial or congested places in confined areas like mountain valleys, and employment could decline in some rural coal producing areas. These rules were proposed in November 1996 and are scheduled to become final in June 1997.

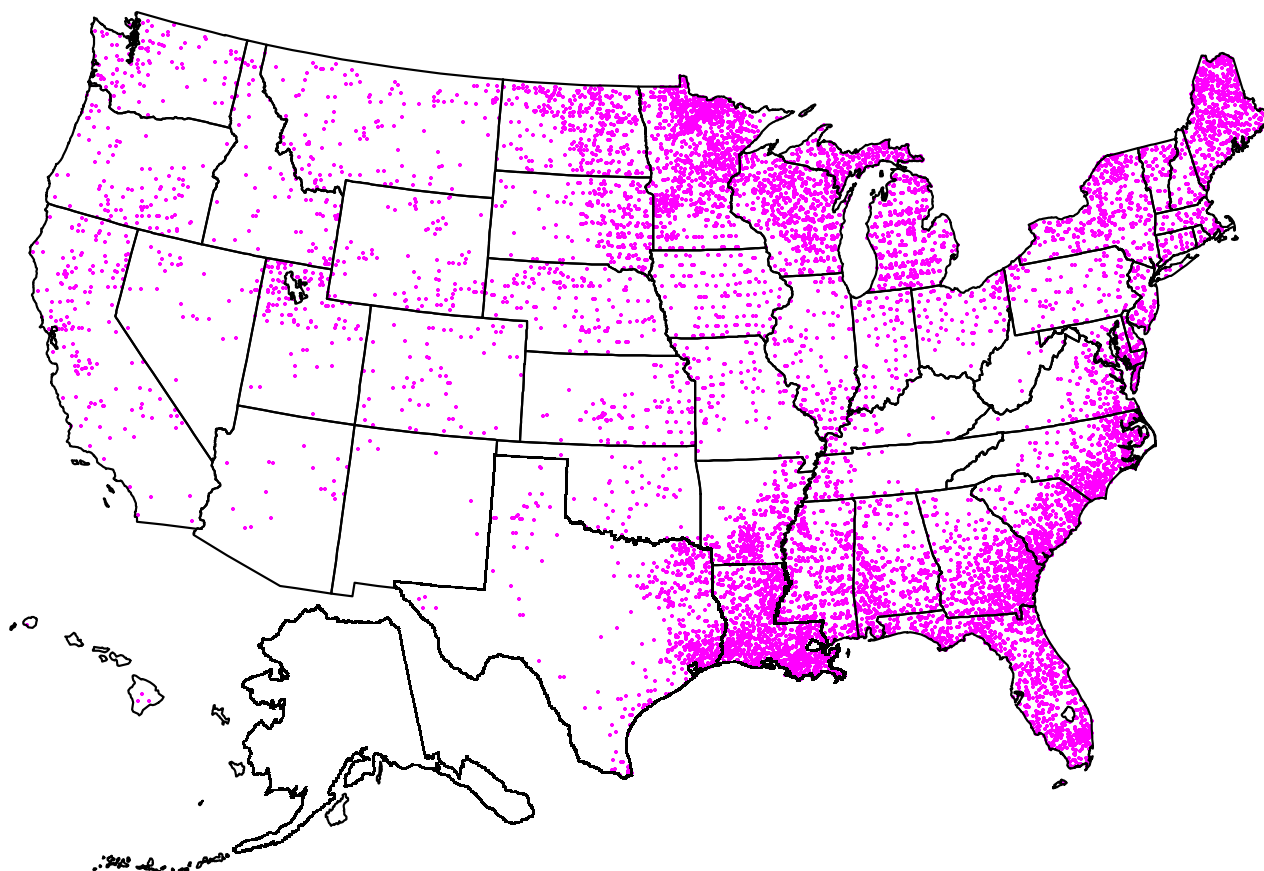
New Regulations Affect Wetlands, Fisheries, and Public Lands

In December 1996, the Army Corps of Engineers acted to preserve wetlands when it stopped allowing easy and quick approval (nationwide permit 26) for private property owners who want to drain small amounts of wetlands of up to 3 acres (pre-conversion notification not required when less than 1/3 acre is drained). This permit, which was applicable only to isolated, upland wetlands, is being replaced by activity-based permits that will give general approval for specific types of activities that will take place on the wetlands. This change, which will take effect in 18 months, should give the Corps more control over how converted wetlands are used. This could benefit rural areas that rely on tourism attraction based on wildlife and scenic attributes of wetlands. However, it could slow residential and industrial development in places with little developable land and reduce land values of property owners in some of these places. Affected areas, such as the Prairie Pothole lands in North Dakota, tend to be away from lakes, rivers, swamps, and coastal areas, and are concentrated in the Northern Plains, Midwest, and Mississippi Delta (fig.1). Other recent changes that may have even greater benefits in preserving and restoring wetlands include the recent reauthorization of USDA's Wetland Reserve programs and rule changes making wetlands eligible for USDA's Conservation Reserve Program (CRP), including making the Prairie Potholes a national conservation priority area for CRP. These programs pay agricultural landholders to protect lands that support wildlife (CRP is discussed in the miscellaneous programs article in this report.)

Landowners would also benefit from new guidelines associated with the Endangered Species Act that allow the creation of habitat conservation areas with the cooperation of private landowners, and provisions in the parks legislation that relaxed restrictions on development in some barrier islands in Florida. In addition, the new legislation covering the management of the fisheries, popular with both environmentalists and the fishing industry, should help protect overfished waters, hence benefiting rural coastal areas.

Meanwhile, various measures were taken to improve and preserve Federal parks and other public lands. The parks legislation authorized and provided funds to create or improve 120 parks, trails, rivers, and historical sites in 41 States. User fees were increased in national parks to help pay for park improvements and upkeep. The parks legislation also enabled the President to call for reduced Federal timber cutting in Alaska's Tongass National Forest. Funding from the water projects legislation will help restore the Everglades in south Florida. The President also used authority under the 1906 Antiquities Act to preserve 1.7 million acres of public lands as a national monument in southern Utah.

Figure 1

Location of rural wetland on non-Federal land 1/*Rural wetlands concentrate along rivers, lakes, and coastal areas*

1/ Data were missing for parts of the country, including Alaska, west Texas, central New Mexico, eastern Colorado, and West Virginia.
 Source: ERS calculations based on 1992 Natural Resources Inventory.

Health Insurance and Social Security Benefit Rules Changed

In an effort to fill some of the holes in the health insurance safety net, the Health Insurance Portability Act of 1996 guarantees that individuals have access to private health insurance coverage when they lose jobs. The legislation guarantees access to the more expensive individual coverage plan; the less expensive group coverage would be available only after a person is re-employed. Such coverage, however, could still be denied for up to 12 months after a person changes jobs. Nevertheless, this provides some needed security to workers in an era of global and technological changes that prevent people from maintaining the same jobs over their lifetime. It might particularly help rural places experiencing layoffs, such as in the Pacific Northwest, and high-poverty areas heavily affected by welfare reform, where large numbers of people entering the labor force may make finding a job harder for recently laid-off employees.

Other recent changes may be even more important to rural areas than the portability provisions. For example, the increase in the tax deductibility of health insurance, which rises to 80 percent deductible by the year 2006, may be the most important benefit for rural areas, particularly agricultural areas where many farmers are self-employed. Another change prevents insurance companies from canceling coverage of small firms—less than

50 people—which are more common in rural than in urban areas. Before this legislation, insurance companies were allowed to cancel coverage when one or two employees developed costly illnesses that raised insurance company costs.

Changes in Social Security coverage rules include an increase in the earnings allowed before benefit reductions. This earnings limit was raised from \$11,520 per year in 1996, gradually increasing to \$30,000 by the year 2002, and indexed for inflation thereafter. This should boost incomes in rural areas with large numbers of retirees, such as retirement destination areas. However, the impact will not be great, since the raised earnings limit only affects retirees who work and are in the 65-69 age bracket, which accounts for only 2 percent of the rural population over 65 years. Other Social Security changes eliminate coverage for alcoholics and drug addicts and reduce payments for stepchildren who have other means of support.

Immigration Reform Could Reduce Some Pressures on Border Areas

Included as part of the Omnibus Spending Act of 1996, immigration reform provisions increase penalties for alien smuggling and document fraud, and make it easier to detain illegal immigrants at the border and deport them. The same legislation included funding for improving the border fence in California and for increasing enforcement efforts of the Immigration and Naturalization Service. To the extent that these provisions can reduce illegal immigration, the demands illegal aliens place on public sector infrastructure and services (roads, water systems, police, education, health) will be lessened and unemployment rates may decline and wages rise, reflecting a reduced immigrant labor supply. The reverse side to this supply/demand equation is that companies that employ illegal immigrants may see their labor costs rise.

New Changes Reduce Regulatory Burden and Potential Competition for Small Banks

Legislation in 1996 imposed fees on banks and thrift institutions to shore up the thrift deposit insurance fund. This legislation (part of the September 1996 Omnibus Fiscal 1997 Appropriations Act) contained various provisions affecting financial services, including several that are particularly important to rural or small banks. Several changes were made that effectively reduced the frequency that regulators may examine small banks—from once every 12 months to once every 18 months. These changes, and other generally deregulatory provisions, should benefit small banks like those in many rural areas, but they may also result in less public accountability for these banks. Another provision of this legislation protects small banks serving Farm Credit System (FCS) borrowers from potential competition from credit unions. This provision responded to a controversial charter given by the State of Wisconsin to a credit union to serve FCS borrowers.

Earlier in 1996, the Farm Credit System Reform Act (discussed in detail in the 1996 *RCaT*) reduced the regulatory burden for FCS institutions. The Farm Credit Administration (FCA), which regulates FCS, proposed additional changes to remove regulatory restrictions on FCS lending not found directly in the statute. These restrictions were modified after facing strong opposition from commercial banks that objected to the prospect of subsidized FCS competition. FCA also proposed new regulations to strengthen capital requirements of FCS institutions to cover the system during future economic downturns. Both proposals became effective on March 11, 1997. However, FCA faces a lawsuit regarding regulations that effectively broaden FCS lending authority.

Recent Decisions Important for Native American Tribes

Following the March 1996 Supreme Court decision that limited tribal rights to sue States over whether Indian gaming operations could be initiated (see 1996 *RCaT* for more details), the Pueblo and Apache tribes experienced a setback when a U.S. District Court ruled in August 1996 that some tribal-State compacts were invalid in New Mexico because they had been approved by the Governor but not by the State legislature. This decision has been appealed. If the casinos are forced to close, the tribes could have diffi-

culty compensating for the estimated 3,000 lost jobs and \$150 million in lost annual revenue. Native Americans are expected to benefit, though, from settlement of claims on the Bureau of Indian Affairs, in which the Government could end up paying as much as \$575 million to various tribes.

Miscellaneous Regulatory Changes Affect Rural Areas

Many miscellaneous changes have gone relatively unnoticed but will nonetheless have some important effects in rural areas. For example, last May, the President signed two executive orders of note. One creates the President's Empowerment Contracting program, which supplements existing Federal procurement rules encouraging Federal agencies to contract with businesses in distressed communities. Businesses that hire significant numbers of residents from low-income areas or invest a lot in such areas can participate in the program. This should benefit rural areas, which tend to have low incomes. The second executive order encourages Federal agencies to locate in the historic districts of central cities.

Another notable change involves the decision by the U.S. Postal Service to reduce the number of small rural post offices and increase post office box fees (smalltown post offices not only offer important communications for residents and businesses, but are viewed as key social institutions in rural America). The Department of Housing and Urban Development revised its regulations for the Community Development Block Grant program, allowing States to contract with regional development organizations to operate Section 108 revolving loan funds. This could benefit rural areas because the regional development organizations in some States are more actively involved in rural development than State agencies. In addition, the Federal Agriculture Improvement and Reform Act of 1996 revised the definition of eligible "rural areas" for USDA's Community Facilities loan program to include any city, town, or unincorporated area with a population of 50,000 or less excluding urbanized areas immediately adjacent to a city, town, or unincorporated area with a population exceeding 50,000. This legislative change broadens eligibility for the program at a time when program funding has declined. *[Rick Reeder, 202-219-0551, rreeder@econ.ag.gov]*